

**Note to Required Supplementary Information – Budgetary Reporting***Statutory Basis of Accounting*

The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations (not funds, which are deemed to be accounting entities) and is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year-end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year-end.

*Budgetary Approval*

State finance law requires that the Governor and the Legislature approve a balanced budget. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts, which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the “original budget column” and the final legally adopted budget, including supplemental appropriations, be reflected in the “final budget” column. The “actual” column contains the statutory inflows and outflows related to budgetary accounts. The “variance” column contains the difference between the “final budget” and the “actual” columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget.